The plan is that the City of Chicago should pass the Stable Jobs Stable Airports Ordinance. The plan is affordable for corporations and brings millions to Chicago communities. **ICA ‘11[[1]](#footnote-1)**

CHICAGO– The loophole in Chicago’s Living Wage Ordinance that has enabled O’Hare and Midway Airport concessionaires to skirt the City’s living wage could be costing Chicago communities up to $8 million a year, a new study from faculty at the University of Chicago and Roosevelt University finds. The study is a cost benefit analysis of the Stable Jobs Stable Airports Ordinance, introduced last month by 28th Ward Alderman Jason Ervin and cosponsored by thirty (30) other aldermen. The ordinance would close the concessionaires’ loophole as well as ensure job stability and labor peace as the City undertakes the largest airport concessions overhaul in its history, handing out $250 million worth of lucrative food and retail concession contracts. “We estimate that there would be a net annual increase in local purchasing power up to $8 million per year [from adopting the ordinance]. Most of this additional purchasing power would be spent locally, resulting in increases in tax revenue for the city and state,” said Virginia Parks, Associate Professor at the University of Chicago’s School of Social Service Administration, lead author of the study. Around 70% of O’Hare and Midway concessions are controlled by multinational companies based overseas, so profits generated at the airports do little to stimulate Chicago’s economy. “With 84 million passengers passing through our airports in Chicago, with sales that are six times as much per square foot as any other place in the City of Chicago, and with bulk of these concessions controlled by multinational corporations that take profits away from the City of Chicago, we have to stand up and act,” said Ald. Jason Ervin, lead sponsor of the Stable Jobs Stable Airports Ordinance, when the ordinance was introduced last month. Ervin also spoke at the “Our Airports, Our Communities” public forum Tuesday at Roosevelt university, where the academics released the study. “We know these companies can afford it. This is not money that is staying here in Chicago, a lot of it goes overseas,” said Boddrick Barnes, a cook at O’Hare Airport and resident of Chicago’s West Englewood community. “If we had a living wage, this is money that we would spend in our neighborhoods. This would bring business back to the community. This is why we are fighting for this [ordinance].”

The advantage is Chicago econ. **Parks et al. ‘11[[2]](#footnote-2)**

The Congressional Budget Office (CBO) estimates that one dollar in government transfer payments to individuals – in unemployment compensation, food stamps, or student financial aid, for example – results in increased economic activity of 80 cents to $2.20 (whereas a tax cut of one dollar for “higher-income people” results in an increase of only 10 to 50 cents).7 This is because low-income individuals have a greater propensity to spend any additional money they receive than do middle- and high-income people. The same is certainly true of low-wage workers, and though we cannot assume that the macroeconomic multiplier is exactly the same for them as for the unemployed or for people on food stamps, we can use the wide range of macroeconomic multipliers the CBO provides to estimate the economic impact on the Chicagoland economy of covering 1,600 airport concessions workers under the Chicago Living Wage. We begin with the $6.4 million these workers would receive in increased wages and then subtract the 20% they might pay in payroll and income taxes. This results in an increase of $5.1 million in take-home pay – or, from a macroeconomic perspective, $5.1 million in increased local spending power. We then subtract any reductions in local spending power that would result from airport customers who are Chicagoland residents and who might pay higher prices at the airport as a result of the wage increase and from airport concessions companies that are based in the Chicago area and that might have to reduce their profits. Concessions revenue comes overwhelmingly from departing rather than arriving passengers, and about 75% of departing passengers at Chicago’s airports are based outside Chicago.8 Therefore, if concessionaires recover any of the cost of implementing the living wage by raising prices, only about one-quarter of those price increases will be borne by Chicago-based travelers. Likewise, on the company side, approximately 70% of O’Hare and Midway concessions revenues are controlled by foreign corporations based overseas. Another 3% of concessions revenues are controlled by U.S. companies based outsideChicago.9 Another 4% is controlled by small Chicago-areacompanies with fewer than 25 employees, and such companies are exempt under the Chicago Living Wage Ordinance.10 Thus, only 23% of the cost of implementing the living wage would be borne by Chicago-based companies.11 If the cost of implementing the living wage were to come entirely from contractor profits, 77% would come from companies based outside Chicago, the vast majority from companies based outside the US. Thus, regardless of whether the cost is borne by passengers paying higher prices or by reductions in concessions contractors’ profits, about 25% in each instance would be drawn from local spending power. Subtracting that 25% from $5.1 million in increased take-home pay, we arrive at an immediate increase in local spending power of $3.8 million. Applying the CBO multiplier estimates to that amount yields a range from $3 million to $8.4 million in increased local spending power, or what economists call “aggregate demand.” Thus, if the multiplier effect of covering these workers under the Chicago Living Wage would be in the middle of CBO’s range (1.6), then the total increase in local aggregate demand would be $6.1 million per year. To summarize our method for arriving at these estimates: • $6.4 million in increased wages minus 20% in payroll and income taxes = $5.1 million in take-home pay • $5.1 million increase in local aggregate demand (LAD) minus 25% reduction in LAD resulting from reduced local company profits and/or increased prices for Chicago-area residents = $3.8 million • Applying various CBO multipliers to $3.8 million to estimate the net increase in LAD: – Lowest CBO multiplier: $3.8 million X 0.8 = $3 million – Highest CBO multiplier: $3.8 million X 2.2 = $8.4 million – Mid-range CBO multiplier: $3.8 million X 1.6 = $6.1 million It should be pointed out that these macroeconomic multipliers are relevant here because some portion of the costs, whether in reduced profits or increased prices, is being borne by economic actors outside the Chicago area. If all customers and all employers at the airports were local, there would be little or no net increase in local economic activity. Because Chicago is an air transportation hub, however, not only will most of the cost of the proposed Amendment be borne by persons and companies outside the Chicago area, but that “outside” money will enter the Chicago economy as what economists call “exogenous demand” and it will have a stimulating effect on the area’s economy. Based on data from the two largest concessions contractors at O’Hare and Midway, 83% of airport concessions employees live in the City of Chicago.12 If this is representative of the concessions workforce as a whole, it is quite likely that the vast majority of this increase in local aggregate demand would benefit the City itself, with most of it being spent in the low-income neighborhoods of Chicago where most of these workers live.

Outweighs the employment disad. **Parks et al. ‘11[[3]](#footnote-3)**

Might these gains be offset, however, by jobs lost at the airport due to a legislated wage increase? The short answer is: most likely not. The scholarly literature on minimum wage and living wage regulation finds minimal employment impacts of such wage increases in competitive markets – with some studies finding no evidence of job loss and others finding relatively small job losses.13 But, as we have pointed out, airport concessions is not a competitive market. Job loss is unlikely if employers are able to absorb the additional costs through price increases or through some combination of reduced profits and price increases that have no effect on consumer demand. As we show below, this is clearly the case with concessions at O’Hare and Midway airports. Increased productivity that is likely to result from the wage increase could over time reduce employment levels if consumer demand did not increase. This is highly unlikely, however, given recent trends as well as the planned air-traffic expansions at the airports. Further, reductions in turnover and improvements in the quality of service that would result should increase customer satisfaction and thus encourage repeat business. A study of similar legislation at the San Francisco Airport (SFO) is not directly relevant because that legislation affected many workers at the airport who are in more competitive markets, such as employees of passenger and cargo airlines. Still, even with a higher living wage that affected a much larger group of workers at SFO, that study found that there was no significant impact on the number of jobs at the airport.14

1. Inside Chicago Airports. “Study: O’Hare, Midway concessionaires’ “Living Wage Loophole” costing Chicago communities millions of dollars each year” (11/02/2011) < http://www.insidechicagoairports.com/2011/11/study-ohare-midway-concessionaires-living-wage-loophole-costing-chicago-communities-millions-of-doll.html > [↑](#footnote-ref-1)
2. Virginia Parks [University of Chicago], Jack Metzgar [Roosevelt University], Ron Baiman [Chicago Political Economy Group], William Sites [University of Chicago] "Cost-Benefit Analysis of Chicago’s Proposed Stable Jobs, Stable Airports Ordinance" (2011) [↑](#footnote-ref-2)
3. Virginia Parks [University of Chicago], Jack Metzgar [Roosevelt University], Ron Baiman [Chicago Political Economy Group], William Sites [University of Chicago] "Cost-Benefit Analysis of Chicago’s Proposed Stable Jobs, Stable Airports Ordinance" (2011) [↑](#footnote-ref-3)